- Net Foreign Direct Investment (FDI) in 2018 amounted to US$9.8 billion, US$200 million short of the US$10 billion mark and 4.4% lower than the net long-term capital inflows in 2017. The increase in debt instruments moderated the impact of the decline in equity and reinvestment of earnings.
- As % of GDP, net FDI reached an unprecedented 3.3% in 2017 but slowed slightly to 3% in 2018.
- Equity investments fell by 33.3%, reversing the surge of 31.1% it registered in 2017, the rise and fall of which, in turn, comes from the electricity sector. On the one hand, the rise in inflows to the electricity in 2017 is explained by the US$1.3 billion investment made by a consortium of foreign investors in Energy Development Corporation (EDC), an operator of geothermal fields. On the other hand, in 2018 San Miguel Corporation acquired Masinloc Group's power assets for US$1.9 billion. (Table 1)

**Table 1. Net FDI by Sector and Type of Instrument**

| | In US$ million | | | YOY Growth (%) | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2017 | 2018 |
| Equity | 2,592.1 | 3,397.9 | 2,267.0 | 31.1 | (33.3) |
| Manufacturing | 334.3 | 1,181.8 | 1,081.8 | 253.6 | (8.5) |
| Electricity | (83.1) | 1,388.0 | 192.8 | 1,770.2 | (86.1) |
| Finance | 1,126.1 | 141.5 | 330.0 | (87.4) | 133.2 |
| Others | 1,214.8 | 686.6 | 662.4 | (43.5) | (3.5) |
| Reinvestments | 710.2 | 862.6 | 859.0 | 21.5 | (0.4) |
| Debt Instruments | 4,977.3 | 5,995.9 | 6,676.4 | 20.5 | 11.3 |
| **Total FDI** | **8,279.5** | **10,256.4** | **9,802.4** | **23.9** | **(4.4)** |
| **% of GDP** | **2.7** | **3.3** | **3.0** | | |

Source of Basic Data: BSP

- The FDI decline in the Philippines in 2018 mirrors the decline in global FDI flows during the past two years. In 2017, it dropped 6.5% to US$1.9 trillion. In the first half of 2018, it dropped further by a heftier 44% to just US$432 billion. This is due to slowdown in the world economy brought about by the US-China trade war, Brexit policy uncertainties, Fed interest rate hikes and volatile petroleum prices (Table 2).

- A regression analysis on determinants of FDI flows to the country confirms that FDI is significantly correlated to world GDP, Philippine real GDP growth and real US Treasury Bond rate. The drop in world GDP growth by 13.8 bps shaved Philippine FDI flows by 0.1% of GDP. Likewise, the 35 bp increase in the US T-Bond rate reduced Philippine FDI by 0.44% of GDP. Without these two negative factors, Philippine FDI would have grown by an estimated 0.24% of GDP (or US$790 million). (Table 3)

### Table 2. Global Net FDI Flows

| | | In US$ billion | YOY Growth |
|---|---|---|---|
| 2013 | | 1,935 | |
| 2014 | | 1,744 | -9.9% |
| 2015 | | 2,020 | 15.8% |
| 2016 | | 2,046 | 1.3% |
| 2017 | | 1,913 | -6.5% |
| 2018 (Jan-June) | | 432 | -44.0% |
| Source: World Bank | | | |

### Table 3. Regression Results: Determinants of FDI Flows, Philippines

Dependent Variable - Philippines Net FDI Inflow as % of GDP

| Explanatory variables | Coefficient | t-value* |
|---|---|---|
| World GDP, real growth | 0.815 | 1.6 |
| Real GDP, Philippines, | 0.261 | 2.2 |
| Lagged by 1 Year | | |
| Real US Treasury Bill Rate | -1.277 | -2.46 |
| R2 adj = 0.80 | | |
| *15% level of significance | | |

DOF View

- A World Bank study shows that foreign capital should be attracted to enhance more competition and efficiency in the economy.
- During the last two years, net FDI has reached the highest levels ever, in nominal terms and relative to GDP.
- The slight drop in 2018 FDI is just a temporary phenomenon brought about by the uncertain world economic environment and affected all countries. FDI flows are expected to recover when world conditions improve. Meanwhile, the Philippines should implement reforms for a better investment environment.
- More red tape should be drastically cut. In this regard, TradeNet.ph, among other digital infrastructure, should be implemented. This will facilitate exports of manufactures.
- Foreign ownership restrictions should be eased. The Philippines has one of the most restrictive investment regimes in Asia. For example, the Public Service Act (PSA) should be amended to redefine public utilities and enhance competition to bring down costs.